

# Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

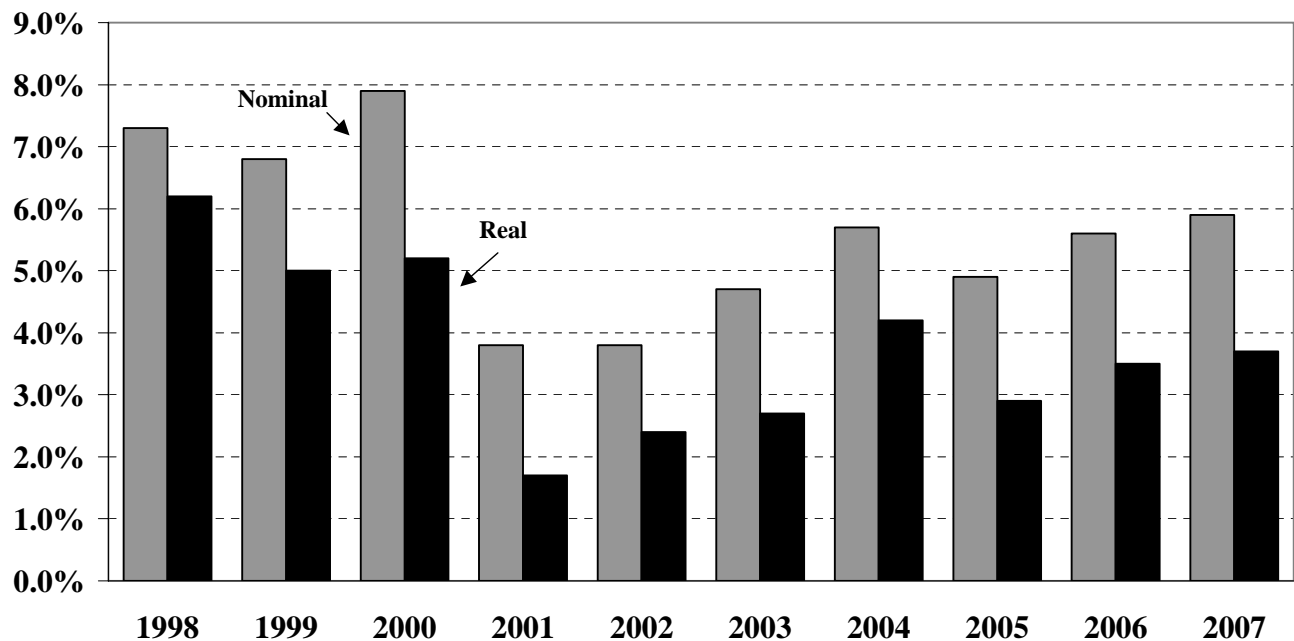
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- Forecast 2003-2007
- The Fiscal Problem of the 21<sup>st</sup> Century
- Alternative Forecasts

## Idaho Nominal & Real Personal Income Growth



**IDAHO  
ECONOMIC  
FORECAST  
2003 - 2006**

State of Idaho  
**DIRK KEMPTHORNE**  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the November 2003 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the September 2003 Global Insight baseline national forecast.

The cover graph features the historical and forecasted growth rates for Idaho nominal and real personal incomes. This graph clearly shows the improved prospects for Idaho personal income compared to what occurred in 2002. In 2002, Idaho nominal personal income increased 3.8% and Idaho real personal income grew 2.4%. Over the forecast period both of these measures are expected to top their respective performances in 2002. For example, Idaho nominal personal income is anticipated to expand 4.7% in 2003, 5.7% in 2004, 4.9% in 2005, 5.6% in 2006, and 5.9% in 2007. Idaho real personal income is forecast to grow 2.7% in 2003, 4.2% in 2004, 2.9% in 2005, 3.5% in 2006, and 3.7% in 2007.

## FEATURE

After posting surpluses for several years, the federal budget is once again in deficit. This fiscal situation is expected to persist for the foreseeable future. But what is in store for the longer term future of the federal budget? Last year the Congressional Budget Office released a report entitled *A 125-year Picture of the Government's Share of the Economy, 1950 to 2075* that helps to answer this question. In the feature article of this *Forecast* Charles I. Jones summarizes the results of this study. Dr. Jones is an Associate Professor at the University of California, Berkeley and a Visiting Scholar at the Federal Reserve Bank of San Francisco.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1992 to 2007 and for every quarter from 2001 through 2006. The solution of the Idaho Economic Model (IEM) for this forecast begins with the third quarter of 2003.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The historical Idaho nonfarm employment data appearing in this forecast was provided by the Idaho Department of Labor and seasonally adjusted by the Division of Financial Management. This data consist of final employment estimates through the second quarter of 2003 and preliminary data for the third quarter of 2003. These new data show the employment forecast for the second quarter of 2003 was 930 higher than the actual number of jobs. The data for the third quarter of 2003 suggest there were nearly 2,000 more jobs than had been previously forecasted.

The tables in this forecast also include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the second quarter of 2003. The BEA will release its next Idaho personal income estimates in late January 2004.

The *Idaho Economic Forecast* is available on the Internet at [http://www.state.id.us/dfm/econ\\_pub.html](http://www.state.id.us/dfm/econ_pub.html). Readers with any questions should contact Derek Santos at (208) 334-3900 or at [dsantos@dfm.state.id.us](mailto:dsantos@dfm.state.id.us).